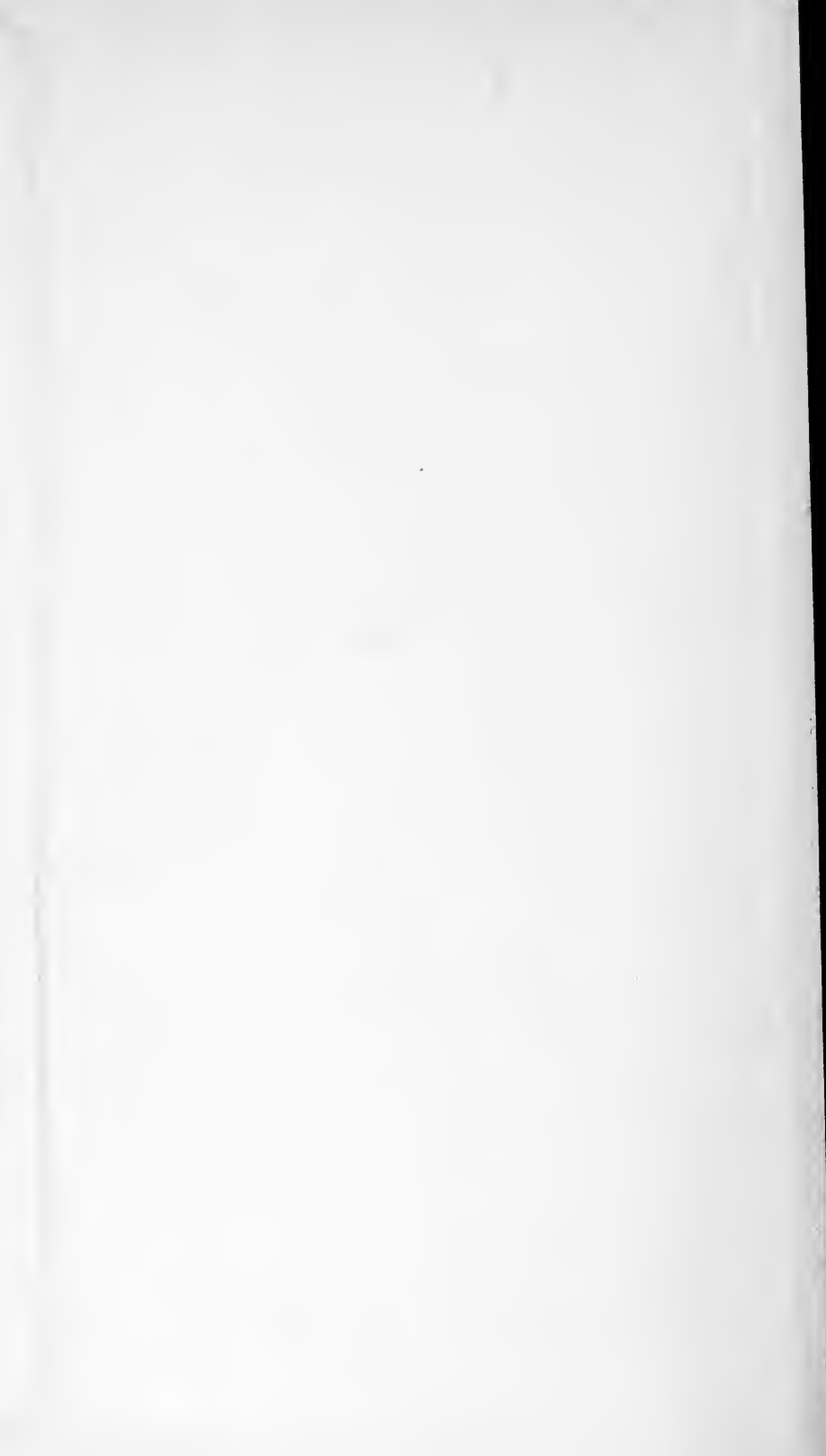
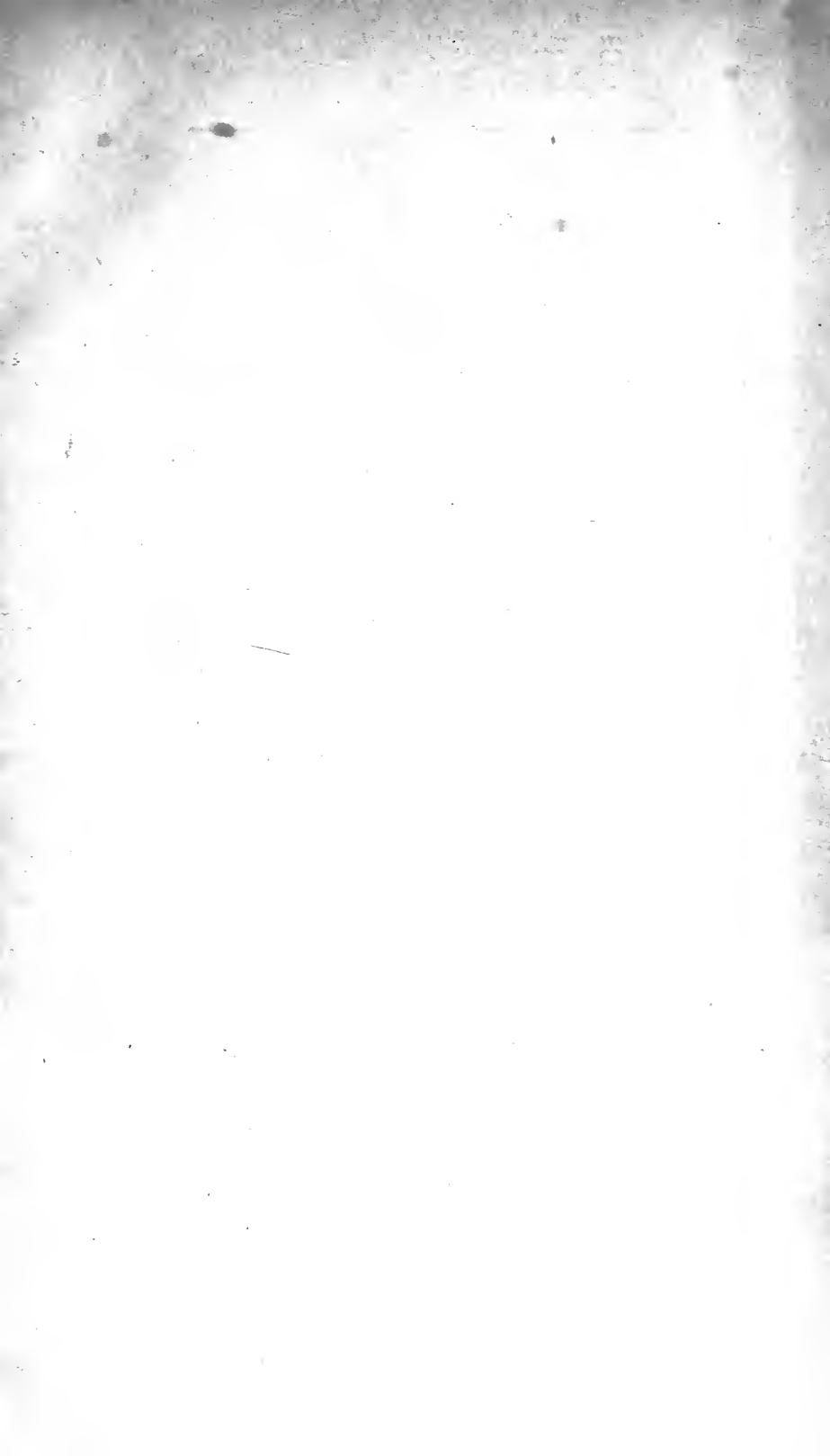


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INDIVIDUAL INCOME-TAX DATA

PREPARED BY THE
STAFF OF THE
JOINT COMMITTEE ON INTERNAL
REVENUE TAXATION

FOR USE OF
SENATE FINANCE COMMITTEE

DECEMBER 8, 1943



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REPORT OF THE

STATE OF THE

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THE MINIMUM INDIVIDUAL INCOME TAX

One of the most important changes made in the House bill is the substitution of a minimum income tax for the Victory tax. The Victory tax was adopted by the Senate Finance Committee and became a part of the Revenue Act of 1942. It may be well to review briefly the Victory tax.

The Victory tax levies a tax of 5 percent on the Victory tax net income in excess of \$624 for each taxable year beginning after December 31, 1942. The Victory tax net income is different from the ordinary net income. In arriving at Victory tax net income, only business deductions are allowable. The individual receiving salary or dividends pays in effect a gross tax upon his salary and dividends in excess of \$624. The man in business pays a tax on his net profits from his business in excess of \$624. Thus, nonbusiness deductions are disallowed. Through a system of post-war credits, recognition was given to family status. The post-war credit is as follows:

(1) In the case of a single person, 25 percent of the Victory tax or \$500, whichever is the lesser.

(2) In the case of a married person, 40 percent of the Victory tax or \$1,000, whichever is the lesser.

(3) For each dependent, 2 percent of the Victory tax or \$100, whichever is the lesser.

In order to afford relief to taxpayers with fixed obligations, such as life-insurance premiums and payments to retire debt, the taxpayer was entitled to apply this post-war credit currently against his Victory tax with respect to—

(1) Payment of premiums on life insurance, outstanding as of January 1, 1942;

(2) Payment on debts contracted prior to September 1, 1942;

(3) Purchase of United States obligations. In the case of United States obligations, the Secretary of the Treasury was given discretionary authority by the Congress to determine what form of United States obligations would be acceptable as a current post-war credit. The Secretary could have prescribed a bond redeemable after the war. However, he failed to do so, but prescribed United States Savings bonds, Series E, F, and G, which are currently redeemable, and are held by most individuals. As a result of this action of the Secretary, practically all taxpayers will have either insurance premiums, debt reductions, or bond purchases sufficient to take these credits currently. Therefore, by an act passed on October 28, 1943, these credits were required to be taken currently, in order to permit the use of a shorter and simpler annual tax return form for 1943. Therefore, each taxpayer is required to apply his post-war credit currently.

Although the first Victory tax return is not due until March 15, 1944, a great deal of criticism, largely Treasury inspired, was directed against the tax. The Treasury, although having jurisdiction of the administration and enforcement of the tax, opened a speaking campaign against the tax, almost immediately following its enactment. It should be pointed out that most of the criticism, which was directed against the complications confronting the taxpayers in making returns, was really not a criticism of the Victory tax as such but a criticism against the difficulty of making current estimates under the pay-as-you-go legislation.

The Victory tax is a temporary tax which will expire after the war period. Its yield in revenue on a net basis is estimated at \$3,500,000,-000 for a full year of operation at calendar year 1944 levels of income. This tax collects revenue in the amount of approximately \$500,000,000 from taxpayers who were not otherwise subject to the income tax. The tax when adopted had two definite advantages. It permitted a single rate of withholding to be applied to wages and salaries in excess of \$624, so that employees and employers could easily become acquainted with the withholding system. This purpose has been accomplished and its success has been demonstrated by the ease with which a 20 percent withholding rate was extended to the general income-tax system. The other purpose, that is, of reaching the income of many citizens, not otherwise subject to the income tax, would practically be eliminated by either the elimination of the minimum tax or the adoption of the Treasury proposal.

An earnest effort was made to integrate the Victory tax with the ordinary income tax, retaining as far as practicable that group of eleven to fourteen million taxpayers who were subject to the Victory tax only. One suggestion was to lower the personal exemption and credit for dependents. That is the plan advocated by the Treasury Department. The Treasury plan lowers the credit for dependents from \$350 to \$300, and the married exemption from \$1,200 to \$1,100. It leaves the single exemption of \$500 untouched. Under the Treasury program, only 2,000,000 of the at least 11,000,000 Victory taxpayers are left upon the tax rolls. The other 9,000,000 escape income tax altogether. The Ways and Means Committee did not approve of the proposal of the Treasury to remove over 9,000,000 taxpayers from the tax rolls, and instructed the staff to prepare an integration plan, which would keep as many of the Victory taxpayers on the rolls as possible. The staff studied 4 possible alternatives as a substitute for the Victory tax:

- (1) Impose a retail sales tax.

- (2) Lower the personal exemptions and credit for dependents of the income tax below that advocated by the Treasury. This would impose a severe hardship on the low-income groups. While they might be able to bear a 5-percent gross or 3-percent net Victory tax on their income below the regular income-tax exemptions, it would result in severe hardship to cause them to bear a 20-percent or even a higher rate on that part of the income above the lower exemptions.

- (3) Allow a different exemption for normal tax than for surtax. However, such a proposal would add complications to the return.

- (4) Provide a minimum income tax on net income in excess of certain specified exemptions.

The program of integration adopted by the House provided for a minimum tax. The minimum tax merely insures that in no case shall the income tax be less than 3 percent of the net income in excess of a special exemption of \$500 for a single person, \$700 for married persons, and \$100 for each dependent. The following simplification has been achieved through the integration plan contained in the House bill:

(1) There is only one base upon which the tax is computed, namely, net income. Under existing law, there are three bases—normal tax net income, surtax net income, and Victory tax net income.

(2) No income taxpayers will have to compute two different taxes to determine their tax liability. They will know instantly, in most cases, by glancing at a table in the instructions, that they are subject only to one tax, either the income tax or the minimum tax. Under existing law, every taxpayer has to compute both his income tax and his Victory tax, and each is on a different base.

(3) A short form has been provided which is simpler than that used in existing law. It provides for the number of dependents in the tax table and thereby eliminates the declaration of the credit for dependents on the face of the return, and it reduces the number of alternative headings for family status from 3 to 2. The short form income tax table, marked for the benefit of the committee to distinguish the minimum tax from the income tax, appears on pages 18 and 19 of the Ways and Means Committee Report.

The Treasury Department, in our opinion, has made an unfair and unwarranted attack upon the method of integration of the Victory tax with the regular income tax adopted almost unanimously in the Committee on Ways and Means and by the House.

Before proceeding to analyze the Treasury's current position, I think I ought to point out that before the Ways and Means Committee of the House Mr. Paul stated that if it was desired to levy a tax upon those now subject only to the Victory tax (of which group 9,000,000 persons would be completely relieved of tax under the Treasury's program), there was no better way of accomplishment.

It should be said at the outset that nearly all the complications to which the Treasury devoted so much of its statement referred only to married couples where both spouses have income, and these cases were limited to those persons who choose to file on the long form of return with the hope that a few dollars of tax could be saved.

Although we might differ with the Treasury as to the wisdom of subjecting the 9,000,000 persons to income tax, there ought not to be any differences as to whether the House bill makes it more difficult for the average taxpayer to compute his income tax. This is merely a question of mathematics, not judgment, and anyone interested in taking the trouble can determine the answer with the use of paper and pencil.

I shall proceed to take up one by one the points made by the Treasury in its statement before this committee.

On page 25 of the hearings you will find Mr. Paul's reference to the "Treasury's integration proposal." I think it should be made clear that the Treasury Department never discussed with our staff, nor presented to the Committee on Ways and Means, any such integration proposal. It appears that the Treasury has merely taken its revenue

raising proposal which was submitted to the Committee on Ways and Means, and broken it down into two parts, one of which represents an integration proposal, the other of which represents a proposal to raise additional revenue.

On page 26 of the hearings, the Treasury states that "two alternative taxes with different rates and exemptions will confront taxpayers using the long form." They indicate that a table could be appended to that form, but state that the table would not "remove the confusion inherent in having two alternative taxes side by side." The table we suggest for such purpose is as follows:

TABLE 1.—*Net income level above which the regular income tax is greater than the minimum tax, according to marital status and number of dependents*

Number of dependents for which credit is allowed	Single person, or a married person making a separate return whose spouse has net income	Married person making a joint return, or a married person making a separate return whose spouse has no net income, or the head of a family ¹	Number of dependents for which credit is allowed	Single person, or a married person making a separate return whose spouse has net income	Married person making a joint return, or a married person making a separate return whose spouse has no net income, or the head of a family ¹
0 -----	\$500. 00	\$1, 275. 00	6 -----	\$2, 825. 00	\$3, 600. 00
1 -----	887. 50	1, 662. 50	7 -----	3, 212. 50	3, 987. 50
2 -----	1, 275. 00	2, 050. 00	8 -----	3, 600. 00	4, 375. 00
3 -----	1, 662. 50	2, 437. 50	9 -----	3, 987. 50	4, 762. 50
4 -----	2, 050. 00	2, 825. 00	10 -----	4, 375. 00	5, 150. 00
5 -----	2, 437. 50	3, 212. 50			

¹ If taxpayer is head of a family only because of dependents for whom he would be entitled to credit, credit is allowed for each of such dependents except one.

Use of the above table, which is certainly not complicated, would not leave two alternative taxes side by side, as the Treasury asserts. Below the figure shown in the table for his family status, the taxpayer would compute only the minimum tax; above the figure shown in the table, the taxpayer would compute only the income tax; regardless of the amount of deductions or the family status, there would never be any occasion when use of this table would not relieve the taxpayer of computing two alternative taxes.

The Treasury next discussed the necessity under the House bill of comparing taxes under separate and joint returns. In Mr. Paul's testimony (page 27 of the hearings), is found this statement: "The large number of variables injected by the House bill will force husband and wife who both receive income to compute a series of alternative taxes to ascertain their lowest possible liability. I should like to cite an example which brings home more forcibly than any lengthy explanation the nature of the compliance burden imposed on these taxpayers." The illustration referred to is as follows:

Illustration.—Possible computations on Form 1040 under the House bill, for a married couple with 3 dependents, to determine the smallest tax liability where the husband has \$1,250 net income and the wife has \$875 net income

	Net income	Regular personal exemption and credit for dependents	Income subject to regular rates	Regular tax	Personal exemption and credit for dependents for purpose of minimum tax	Income subject to minimum tax	Minimum tax	Tax liability (the larger of column 4 or 7 for each numbered line)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
JOINT RETURN								
(1) Husband and wife.....	\$2, 125	\$2, 250	None	None	\$1, 000	\$1, 125	\$33. 75	\$33. 75
SEPARATE RETURNS								
Husband claiming credit for 3 dependents, wife claiming credit for no dependents:								
(2) Husband.....	1, 250	1, 550	None	None	800	450	13. 50	13. 50
(3) Wife.....	875	500	\$375	\$86. 25	500	375	11. 25	86. 25
Total.....	2, 125	2, 050	375	86. 25	1, 300	825	24. 75	99. 75
Husband claiming credit for 2 dependents, wife claiming credit for 1 dependent:								
(4) Husband.....	1, 250	1, 200	50	11. 50	700	550	16. 50	16. 50
(5) Wife.....	875	850	25	5. 75	600	275	8. 25	8. 25
Total.....	2, 125	2, 050	75	17. 25	1, 300	825	24. 75	24. 75
Husband claiming credit for 1 dependent, wife claiming credit for 2 dependents:								
(6) Husband.....	1, 250	850	400	92. 00	600	650	19. 50	92. 00
(7) Wife.....	875	1, 200	None	None	700	175	5. 25	5. 25
Total.....	2, 125	2, 050	400	92. 00	1, 300	825	24. 75	97. 25
Husband claiming credit for no dependents, wife claiming credit for 3 dependents:								
(8) Husband.....	1, 250	500	750	172. 50	500	750	22. 50	172. 50
(9) Wife.....	875	1, 550	None	None	800	75	2. 25	2. 25
Total.....	2, 125	2, 050	750	172. 50	1, 300	825	24. 75	174. 75

Source: Bureau of Internal Revenue, Nov. 10, 1943.

This table shows 5 different ways of computing the tax for a married couple with three dependents having a combined net income of \$2,125, under the House bill, resulting in 5 different total liabilities, and 9 different computations. It was stated (page 27 of hearings) that this couple would also have to make 9 tax determinations on the short form (1040A), or 18 in all. For some reason, the committee was not told that an identical situation as to the number of possible ways of computing the tax for this couple exists under present law. The 9 different computations for this same couple under present law are shown in the following table, and 9 more, or 18 in all, can be made on the short form return.

TABLE 2.—*Computations necessary to determine basis resulting in the smallest tax liability for a husband with \$1,250 net income and wife with \$875 net income with 3 dependents, under present law*

A. SEPARATE RETURNS, HUSBAND CLAIMING CREDIT FOR 2 DEPENDENTS, WIFE CLAIMING CREDIT FOR 1 DEPENDENT

	Net income (1)	Regular personal exemption and credit for dependents (2)	Income subject to regular rates (3)	Regular tax (4)	Gross income (5)	Specific exemption (6)	Gross Victory tax (7)	Net Victory tax (8)	Total tax liability (9)
(1) Husband-----	\$1, 250	\$1, 300	None	None	\$1, 388. 89	\$624. 00	\$38. 24	\$21. 41	
(2) Wife-----	875	950	None	None	972. 22	624. 00	17. 41	10. 10	
Total-----	2, 125	2, 250	None	None	2, 361. 11	1, 248. 00	55. 65	31. 51	\$31. 51

B. SEPARATE RETURNS, HUSBAND CLAIMING CREDIT FOR 1 DEPENDENT, WIFE CLAIMING CREDIT FOR 2 DEPENDENTS

(3) Husband-----	\$1, 250	\$950	\$300	\$49. 50	\$1, 388. 89	\$624. 00	\$38. 24	\$22. 18	
(4) Wife-----	875	1, 300	None	None	972. 22	624. 00	17. 41	9. 75	
Total-----	2, 125	2, 250	300	49. 50	2, 361. 11	1, 248. 00	55. 65	31. 93	\$81. 43

C. SEPARATE RETURNS, HUSBAND CLAIMING CREDIT FOR 3 DEPENDENTS, WIFE CLAIMING CREDIT FOR NO DEPENDENTS

(5) Husband-----	\$1, 250	\$1, 650	None	None	\$1, 388. 89	\$624. 00	\$38. 24	\$20. 65	
(6) Wife-----	875	600	\$275	\$47. 00	972. 22	624. 00	17. 41	10. 45	
Total-----	2, 125	2, 250	275	47. 00	2, 361. 11	1, 248. 00	55. 65	31. 10	\$78. 10

D. SEPARATE RETURNS, HUSBAND CLAIMING CREDIT FOR NO DEPENDENTS, WIFE CLAIMING CREDIT FOR 3 DEPENDENTS

(7) Husband-----	\$1,250	\$600	\$650	\$116.00	\$1,388.89	\$624.00	\$38.24	\$22.94	\$148.34
(8) Wife-----	875	1,650	None	None	972.22	624.00	17.41	9.40	
Total-----	2,125	2,250	650	116.00	2,361.11	1,248.00	55.65	32.34	

E. JOINT RETURN

(9) Joint-----	\$2,125	\$2,250	None	None	\$2,361.11	\$1,248.00	\$55.65	\$30.06	\$30.06
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¹ Assumed to be ten-ninths of net income.

if exemption split equally

You will note from the above table that under present law the total liability may vary from \$30.06 to \$148.34, depending on the type of return and allocation of dependents. The Treasury Department stated (page 27 of the hearing) that under present law it is generally a matter of indifference to married couples with surtax net incomes below \$2,000, whether they file separate or joint returns. The above example with its five different tax results shows clearly that this statement cannot be true. Incidentally, an infinite number of additional tax results could be obtained for this couple under present law if we were to assume the personal exemption would be divided other than equally between the spouses as is permitted under present law but not allowed under the House bill.

There is absolutely no difference between the number of possible computations under present law and under the House bill, if one makes the absurd assumptions which underlie the illustration inserted in the record by the Treasury. If you will look for a moment at the table on page 60 of the hearings, which was intended to illustrate the operation of the House bill, you will note in column (3) that in the case of four of the five different alternatives, one or both spouses are choosing to take more exemption credit and for dependents than they have income, with the result in each of the four cases that there is some unused regular income-tax exemption—in other words, a possible tax savings is just thrown away, something I can't believe a taxpayer in his right mind would do. Moreover, many of the possible allocations of dependency credit would not be permitted under existing law which requires that the taxpayer receiving dependency credit must provide the major support of the dependent. In the case where all the regular income-tax exemption and credit is put to use, the tax is the least, as one would expect.

By implication, the Treasury's testimony contradicts itself, for on page 28 of the hearings Mr. Paul states, "There is no incentive under present law for married persons with small incomes to file separate returns, and the problem of allocating dependents is thereby avoided." He implies, therefore, that if there were such an incentive, the problem would be encountered; however, on the previous page it was implied that under present law it makes no difference to the taxpayer which type of return he files. Moreover the law governs the allocation of the major support principle.

to by It is then pertinent to inquire whether under the House bill there is an incentive for married persons to file separate returns. And here the Treasury's inconsistency is again disclosed, for in one breath it is stated that taxpayers "will be driven to compare the tax advantages of joint and separate returns" (page 27 of the hearing) and in the next, that the House bill "places a premium on joint returns" (page 28 of the hearing). If the bill clearly places a premium on joint returns it is difficult to understand why it "will confront well over 10,000,000 married couples with the choice between joint and separate returns" (page 28 of the hearing). Not only the facts are faulty, but the reasoning as well. The Treasury, which in the past has gone so far as to favor compulsory joint returns, estimates that under present law 8.2 million joint returns are expected for 1944, while under the House bill 10.7 million joint returns, an increase of 2.5 million, will be filed. If the Treasury were consistent it should have no objection to this result.

Under the House bill there is no incentive for married persons in the low brackets to file separate returns, except in those few instances where the income of at least one spouse is close to the exemptions. These couples would naturally use the short form of return, and thereby avoid any laborious computations which, at the most, would result in only a few dollars of tax savings. As the Treasury implies, although in doing so it contradicts an earlier statement, it would be clear to taxpayers subject to regular income tax that it would be to their disadvantage to file separate returns, because when that is done, the combined exemption would be reduced from \$1,200 to \$1,000. No laborious computations are required to make this determination. Table 1 above indicates the points where the regular income tax first applies.

The Treasury did not disclose the fact, except indirectly, that the House bill extends the range over which joint returns are preferable to separate returns. Under present law, a married couple with no dependents would find it advantageous to file a joint return if the gross incomes of both spouses are over \$638.30 and under \$1,702.13, a range of \$1,063.83 for both incomes. If the couple has one dependent, the range would be from \$824.47 to \$1,888.30, again \$1,063.83. Regardless of the number of dependents, and the division of dependents or income, the range under present law, over which a joint return is always preferable is \$1,063.83 for both spouses. The Treasury Department apparently did not learn, or did not wish to disclose, the fact that the House bill extends this range to about \$2,000. This is illustrated by the following table:

TABLE 3.—INDIVIDUAL INCOME TAXES—HOUSE BILL

Gross income range for both spouses, within which a joint return will result in a lesser combined tax than separate returns, regardless of division of income or dependents

Total number of dependents	Gross income range, both spouses ¹	Amount within range
0.....	\$555. 85—\$2, 517. 73	\$1, 961. 88
1.....	569. 46— 2, 748. 23	2, 178. 77
2.....	968. 09— 2, 890. 07	1, 921. 98
3.....	992. 02— 3, 120. 57	2, 128. 55
4.....	1, 380. 32— 3, 262. 41	1, 882. 09
5.....	1, 404. 26— 3, 492. 91	2, 088. 65
6.....	1, 792. 55— 3, 634. 75	1, 842. 20
7.....	1, 816. 49— 3, 865. 25	2, 048. 76
8.....	2, 204. 79— 4, 007. 09	1, 802. 30
9.....	2, 228. 72— 4, 237. 59	2, 008. 87
10.....	2, 617. 02— 4, 379. 43	1, 762. 41

¹ Assumes deductions of 6 percent of gross income, as allowed on short-form return.

In the light of the above table, it is interesting to note Mr. Paul's statement, that "because of these variables, no clear dividing lines or income zones can be established to guide taxpayers into one type of return or the other" (p. 27 of hearings). Clearly his statement cannot be true; neither can it be true that the House bill "will require millions of married couples to go through a series of alternative tax computations to ascertain their lowest possible liability" (p. 26 of hearings).

As shown by Table 3, married persons will not find that the advantages of joint and separate returns "shifts with the size of income, with the particular division of income between husband and wife, and with the number and division of dependents," as the Treasury has stated (page 27 of hearings). Within the ranges shown, there is no shifting of advantage, regardless of the size of income, of the particular division of income between husband and wife, or of the number or division of dependents. This is another case of faulty mathematics on the part of the Treasury. By the same reasoning the table in appendix B of the Treasury's testimony, shown at the top of page 58 of the hearings, is misleading in that it carries the impression that the wide range over which the joint return results in the lesser tax exists only if the income is assumed to be divided evenly between husband and wife. As a matter of fact, the range remains unchanged, regardless of the division of income or dependents; and within the range shown in the Treasury's table on page 58 of the hearings there are an infinite number of possible combinations of net income, with all of which it would be profitable to file a joint return.

What the Treasury's so-called integration proposal achieves in the way of simplicity is almost entirely lost under the other half of the proposal, which is allocated to the revenue-raising category. Most of the charges which the Treasury leveled against the House bill can be made with respect to the Treasury's combination proposal, which provides for splitting up the first surtax bracket, now 0 to \$2,000, into four smaller brackets from 0 to \$500, \$500 to \$1,000, \$1,000 to \$1,500, and \$1,500 to \$2,000. The effect of the Treasury's combined proposal is to lower from \$3,200 to at least \$1,600 the combined net income level above which a married couple with no dependents would find it desirable to make burdensome computations in order to file a separate return and receive the benefit of a tax savings. The House bill operates in the opposite direction and raises this point from \$3,200 to \$4,733.

The following table shows a comparison of the point under present law and under the House bill, where for the higher brackets, the incentive to file separate returns first arises:

TABLE 4.—*Net income, for both spouses, above which separate returns produce a lesser combined income tax than a joint return*

Total number of dependents	Net income, both spouses		
	Present law	House bill	Treasury combined proposal ¹
0-----	\$1, 600	\$2, 367	\$800
1-----	1, 775	2, 583	950
2-----	1, 950	2, 717	1, 100
3-----	2, 125	2, 933	1, 250
5-----	2, 475	3, 283	1, 550
10-----	3, 350	4, 117	2, 300

¹ The figures in this column would be still smaller if consideration were given to post-war credit.

It is obvious from the above table that the House bill raises the level of income above which it becomes desirable for taxpayers always to file separate returns, while the Treasury's combined proposal lowers it. In other words, the range for the middle and upper income brackets within which it is not necessary to make laborious computations is greatly widened under the House bill and considerably narrowed under the Treasury combined proposal. In view of this fact, it is difficult to understand why the Treasury has objected so strenuously to the House bill. Mr. Paul stated that the House bill will confront well over 10,000,000 married couples with a choice between joint and separate returns. If this is true, it follows that the only possible reason that the Treasury proposal would not confront a good many more than 10,000,000 married couples with this dilemma is that their proposal completely relieves 9,000,000 persons of any tax whatsoever. The gross income range for both spouses over which a joint return produces the lesser tax, regardless of the division of income or dependents between the spouses, is compared in the table below, for the House bill, present law, and the Treasury combined proposal:

TABLE 5.—INDIVIDUAL INCOME TAXES; HOUSE BILL, PRESENT LAW, AND TREASURY COMBINED PROPOSAL COMPARED

Gross income range for both spouses within which a joint return will result in a lesser combined tax than separate returns, regardless of division of income or dependents

Total number of dependents	Gross income range, both spouses ¹			Amount within range		
	House bill	Present law	Treasury combined proposal	House bill	Present law	Treasury combined proposal
0.....	\$555.85-\$2,517.73	\$638.30-\$1,702.13	\$585.11-\$851.06	\$1,961.88	\$1,063.83	\$265.96
1.....	569.46- 2,748.23	824.47- 1,888.30	744.68-1,010.64	2,178.77	1,063.83	265.96
2.....	968.09- 2,890.07	1,010.64- 2,074.47	904.25-1,170.21	1,921.95	1,063.83	265.96
3.....	992.02- 3,120.57	1,196.81- 2,260.64	1,063.83-1,329.79	2,128.55	1,063.83	265.96
4.....	1,380.32- 3,262.41	1,352.98- 2,446.81	1,223.40-1,459.36	1,882.09	1,063.83	265.96
5.....	1,404.26- 3,492.91	1,569.15- 2,632.98	1,382.98-1,648.93	2,088.65	1,063.83	265.95
6.....	1,792.55- 3,634.75	1,755.32- 2,819.15	1,542.55-1,808.51	1,842.20	1,063.83	265.96
7.....	1,816.49- 3,865.25	1,941.49- 3,005.32	1,702.12-1,968.08	2,048.76	1,063.83	265.96
8.....	2,204.79- 4,007.09	2,127.66- 3,191.49	1,861.70-2,127.66	1,802.30	1,063.83	265.96
9.....	2,228.72- 4,237.59	2,313.83- 3,377.66	2,021.27-2,287.23	2,008.87	1,063.83	265.96
10.....	2,617.02- 4,379.43	2,500.00- 3,563.83	2,180.85-2,446.80	1,762.41	1,063.83	265.95

¹ Assumes deductions of 6 percent of gross income as allowed on the short-form return.

It will be noted in the above table that the range of about \$1,064 of gross income under present law is raised to approximately \$2,000 under the House bill, and lowered to about \$266 under the Treasury combined proposal. Taxpayers' difficulties in filing returns will, of course, vary inversely with the amount of gross income within this range of clear choice.

In the Treasury program, suggested in the Ways and Means Committee, it was recognized that the rates of individual income taxes which were proposed might make the total tax burden unbearable in many cases. For this reason, suggestions were made as to the allowance of a post-war credit, with current relief for debts and

insurance premiums, and for persons with fixed incomes limited to a certain percentage of the post-war credit. It has been argued by both Mr. Paul and Mr. Surrey, that the post-war credit of the Victory tax has complicated and rendered difficult the preparation of a simple income-tax form for 1943. Yet to render staggering increased taxation for 1944 and subsequent years more bearable, they suggested similar and added complications to our income-tax system. One of the features of the Victory tax post-war refund, which has been omitted from the Treasury proposal, evidently in the interest of simplification, is the recognition of the exemption status in determining the amount of the post-war credit. For example, under exhibit I, suggestion I, the following results are shown:

TABLE 6.—*Post-war credit under Treasury proposal*

Net income before personal exemption	Post-war credit, single person	Post-war credit, married person	Post-war credit, married person with 2 dependents
\$2,000-----	\$55	\$45	\$33
\$3,000-----	74	62	52
\$5,000-----	117	103	91
\$10,000-----	243	227	210

In other words, the difference in marital status, recognized as a basis of ability to pay, is ignored in determining the post-war credit.

We do not deny the fact that under the House bill below the low point of the range shown in table 5 the determination of the type of return to be filed will depend upon the division of income and allocation of dependents between the spouses. However, two factors in this connection should be noted: Namely, (1) that below this point the taxpayer is subject to tax over only a small range (for example, over a range of only \$24 if there are no dependents, and over a range of only \$340 if there are as many as five dependents), and (2) that individuals with these incomes will most certainly not use the long form of return, and will thereby avoid more than the simplest sort of computations. There are a number of ways, which I shall discuss later, of eliminating possible complications which may occur within this narrow range.

On page 28, the Treasury states that decreased use of the simplified short-form return would result under the House bill, and states that "this effect of the House bill is unfortunate." I should like to point out that compulsory joint returns, a provision for a long time advocated by the Treasury Department, would result in a very sharply decreased use of the simplified return. Apparently the Treasury did not think this effect was unfortunate when it resulted from a proposal which they favored for other reasons.

On page 29 the Treasury states that the House bill will complicate the administrative process. In this connection, it is only necessary to point out that, according to the Treasury's own estimates, the House bill will require the filing and processing of 2,400,000 fewer returns than would present law. Certainly this result cannot be termed an addition to the problem of administration.

On pages 28 and 29, the Treasury has stated that the House bill would complicate the withholding process, and that "employers will thus be confronted with two sets of varying exemptions, as well as two tax rates, in determining how much to withhold." If the Treasury had considered the matter more thoroughly, they would know that a simple table furnished to all employers using the so-called precise method, could enable them to tell at a glance whether the employee should be withheld on at regular income-tax exemptions and rates or at the minimum tax exemptions and rates. The following table, covering a weekly and a monthly pay-roll period, illustrates the simplicity with which this problem, made to appear so difficult by the Treasury, can be handled.

TABLE 7.—INDIVIDUAL INCOME TAXES, HOUSE BILL, "PRECISE" COMPUTATION
METHOD OF WITHHOLDING

Gross income level above which the amount withheld at regular income-tax rates and exemptions is greater than the amount withheld at minimum-tax rates and exemptions, according to marital status and number of dependents

Number of dependents for which credit is allowed	Weekly pay-roll period			Monthly pay-roll period		
	Married person claiming a personal exemption for withholding whose spouse claims none, or head of family ¹	Single person, or married person claiming a personal exemption for withholding whose spouse claims a personal exemption for withholding	Person claiming no personal exemption for withholding	Married person claiming a personal exemption for withholding whose spouse claims none, or head of family ¹	Single person, or married person claiming a personal exemption for withholding whose spouse claims a personal exemption for withholding	Person claiming no personal exemption for withholding
0-----	\$25. 76	\$10. 00	\$0	\$113. 76	\$44. 00	\$0
1-----	33. 65	17. 88	7. 88	148. 47	78. 71	34. 71
2-----	41. 53	25. 76	15. 76	183. 18	113. 41	69. 41
3-----	49. 41	33. 65	23. 65	217. 88	148. 12	104. 12
4-----	57. 29	41. 53	31. 53	252. 59	182. 82	138. 82
5-----	65. 18	49. 41	39. 41	287. 29	217. 53	173. 53
6-----	73. 06	57. 29	47. 29	322. 00	252. 24	208. 24
7-----	80. 94	65. 18	55. 18	356. 71	286. 94	242. 94
8-----	88. 82	73. 06	63. 06	391. 41	321. 65	277. 65
9-----	96. 71	80. 94	70. 94	426. 12	356. 35	312. 35
10-----	104. 59	88. 82	78. 82	460. 82	391. 06	347. 06

¹ If taxpayer is head of a family only because of dependents for whom he would be entitled to credit credit is allowed for each of such dependents except 1.

On page 30 it is stated that "while the 9,000,000 taxpayers who would be exempted under the Treasury proposal pay \$275,000,000 under present law, they would pay only \$161,000,000 under the House bill." It is important to note that the minimum tax of the House bill will apply not only to the 9,000,000 who are relieved of tax by the Treasury proposal but also to the additional 2,000,000 persons (estimated by the staff at nearer 4,000,000 persons) who are now subject only to the Victory tax. The tax paid by this group, when added to the tax paid by the 9,000,000, would raise the revenue gained from the minimum tax to a figure of about \$350,000,000. In other words, the minimum tax brings into the Treasury more than twice as much revenue as one might be led to believe from the statement made by the Treasury. In other words, a part of this \$350,000,000 is regained

by the Treasury by reductions in the exemption for married persons and in the reduction of credit for dependents. The Treasury's integration proposal thereby shifts the burden of a part of the present Victory tax from single persons without dependents, to married persons and single persons with dependents. Under the Treasury's integration proposal the taxpayer requiring the largest exemption has placed upon him the heaviest burden.

Next I should like to call your attention to a statement on page 31 of the hearings. Mr. Paul said, "there is not any difference of any appreciable degree between the burden of taxes upon those taxpayers (the 9,000,000) between the present law and the proposal of the Treasury and the House bill." Although this may be true of the total burden, including excise taxes, it is plainly not the case with the income tax, as indicated by the following table.

TABLE 8.—Comparison of House bill minimum tax of 3, ~~4~~, and 5 percent with net Victory tax payable under present law by those not subject to the regular income tax, and tax under Treasury integration plan

SINGLE PERSON, 1 DEPENDENT

Net income before personal exemption	Present law net Victory tax <i>✓</i>	House bill minimum tax	Treasury integration plan
\$600-----	\$1. 55		
\$650-----	3. 58	\$1. 50	
\$700-----	5. 61	3. 00	
\$750-----	7. 64	4. 50	
\$800-----	9. 67	6. 00	
\$850-----	11. 69	7. 50	

MARRIED PERSON, NO DEPENDENTS

\$600-----	\$1. 28		
\$650-----	2. 95		
\$700-----	4. 61		
\$750-----	6. 28	\$1. 50	
\$800-----	7. 94	3. 00	
\$850-----	9. 61	4. 50	
\$900-----	11. 28	6. 00	
\$950-----	12. 95	7. 50	
\$1,000-----	14. 62	9. 00	
\$1,050-----	16. 28	10. 50	
\$1,100-----	17. 95	12. 00	
\$1,150-----	19. 61	13. 50	\$11. 00
\$1,200-----	21. 28	15. 00	22. 00

TABLE 8.—Comparison of House bill minimum tax of 3, 4, and 5 percent with net Victory tax payable under present law by those not subject to the regular income tax, and tax under Treasury integration plan—Continued

MARRIED PERSON, 2 DEPENDENTS

Net income before personal exemption	Present law net Victory tax ✓	House bill minimum tax	Treasury integration plan
\$600.....	\$1. 19		
\$650.....	2. 75		
\$700.....	4. 31		
\$750.....	5. 86		
\$800.....	7. 41		
\$850.....	8. 97		
\$900.....	10. 53		
\$950.....	12. 08	\$1. 50	
\$1,000.....	13. 64	3. 00	
\$1,050.....	15. 19	4. 50	
\$1,100.....	16. 75	6. 00	
\$1,150.....	18. 31	7. 50	
\$1,200.....	19. 86	9. 00	
\$1,250.....	21. 41	10. 50	
\$1,300.....	22. 97	12. 00	
\$1,350.....	24. 53	13. 50	
\$1,400.....	26. 08	15. 00	
\$1,450.....	27. 64	16. 50	
\$1,500.....	29. 19	18. 00	
\$1,550.....	30. 75	19. 50	
\$1,600.....	32. 31	21. 00	
\$1,650.....	33. 86	22. 50	
\$1,700.....	35. 41	24. 00	
\$1,750.....	36. 97	25. 50	\$11. 00
\$1,800.....	38. 53	27. 00	22. 00
\$1,850.....	40. 08	28. 50	33. 00
\$1,900.....	41. 64	30. 00	44. 00

✓ Net Victory tax computed on a gross income assumed to be 10% of net income.

Speaking of the Treasury proposal on page 31 of the hearings, Mr. Paul stated: "It eliminates 9,000,000 taxpayers; it eliminates all the work involved in ordering, checking, and in policing those returns. That is a lot of work. The work might be worth while if it brought in enough money, but it only brings in \$161,000,000 under present law." I take it that the stenographer misquoted Mr. Paul with respect to the last three words "under present law" for they do not seem to make sense. He had just previously said the 9,000,000 persons would pay \$275,000,000 under present law. As for the remainder of the quotation, it should be noted that from an administrative cost standpoint the cost of collecting this tax from the 9,000,000 persons would have to exceed \$18 per taxpayer to make the collection not worth while. I am sure Mr. Paul does not believe the cost of this collection could reach this astronomical figure.

On page 32, the Treasury states that "a tax law which affects over 50,000,000 people must be made understandable to them if it is to survive." As we have attempted to show, the individual income tax in the House bill will be no more complicated, and in many respects substantially less complicated, than present law for a large majority

of the taxpayers. It may be said that by making the statement it did before the Finance Committee, and by information we understand has been given to the press, the Treasury has already created a large amount of confusion in the minds of the taxpayers.

In view of the Treasury's opposition to taxing persons now subject only to the Victory tax, it is not surprising that they failed to suggest ways of improving the minimum tax already adopted by the House. The Treasury apparently preferred to defeat the minimum tax than to make it workable in their estimation. We do not deny that minor complications may occur within a narrow range of gross income in those few instances where the taxpayer chooses to file on the long form of return. Possible modifications for eliminating even these are as follows:

(a) Substitute a minimum tax of 3 percent of (1) net income, or (2) gross income, in excess of \$624. This would give no recognition to family status, but would permit the use of one short-form table as under the House bill.

(b) Disallow the use of the short form return for married persons filing separate returns and allow the spouses to split the present law exemption in any manner they wish if they file on the long form, as is permitted under present law. Married persons filing a joint return would, of course, be permitted to use the simplified form.

(c) Eliminate the provision requiring married persons filing separate returns to take a single person's exemption. This would require an extra short-form return table for married persons filing separate returns unless it were done in conjunction with (b) above.

(d) Combinations of above.

Of the above, we think a combination of (b) and (c) is the best, and recommend that it be adopted. The modification proposed will avoid the few complications that do exist within a very narrow range of income, because it will permit husbands and wives filing separate returns to split the present law total married exemption of \$1,200 in any manner they wish. Also, there will be no possibility of aggravating the probability of year-end refunds and additional tax payments mentioned by the Treasury on page 29 of the hearings. The only disadvantage to this modification, and it is not a great one, is that a few married persons having combined gross incomes from \$3,200 to \$6,000 who might otherwise desire to file separate returns on the short form, will be prevented from doing so. This does not seem unfair, in view of the fact that the tax advantage to be gained by filing separate returns, which is not wholly justifiable at any rate, is not eliminated.





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